Canadian Pacific Investments Limited

Annual Report 1971

Principal Subsidiary Companies

PanCanadian Petroleum Limited

Head Office:
Natural Resources Building,
205 – 9th Avenue S.E.,
Calgary 21, Alberta

CanPac Minerals Limited

Head Office:
Natural Resources Building,
205 – 9th Avenue S.E.,
Calgary 21, Alberta

Fording Coal Limited

Head Office:
Trail, British Columbia

Pacific Logging Company Limited

Head Office:
468 Belleville Street,
Victoria, British Columbia

The Great Lakes Paper Company, Limited

Head Office:
Thunder Bay, Ontario

Marathon Realty Company Limited

Head Office:
Suite 1650, Royal Trust Tower,
Toronto-Dominion Centre,
Toronto 111, Ontario

Room 212, CP Rail Station,
Vancouver 2, British Columbia

Suite 835, 1 Palliser Square,
Calgary 21, Alberta

2124 Broad Street,
Regina, Saskatchewan

69 Yonge Street,
Toronto 1, Ontario

Suite 1930, Place du Canada,
Montreal 101, Quebec

Cominco Ltd.

Head Office:
630 Dorchester Blvd. West,
Montreal 101, Quebec

Canadian Pacific Hotels Limited

Head Office:
Royal York Hotel,
Toronto 116, Ontario

Empress Hotel,
Victoria, British Columbia

Palliser Hotel,
Calgary 21, Alberta

Banff Springs Hotel,
Banff, Alberta

Chateau Lake Louise,
Lake Louise, Alberta

Chateau Lacombe,
Edmonton, Alberta

Hotel Saskatchewan,
Regina, Saskatchewan

Northstar Inn,
Winnipeg, Manitoba

Red Oak Inn,
Brandon, Manitoba

Skylon Restaurants,
Niagara Falls, Ontario

Le Château Champlain,
Montreal 101, Quebec

Le Baron Motor Hotel,
Sherbrooke, Quebec

Le Baron Motor Hotel,
Trois-Rivières, Quebec

Le Château Frontenac,
Quebec City 4, Quebec

Le Château Montebello,
Montebello, Quebec

Canadian Pacific Securities Limited

Head Office:
Room 247, Windsor Station,
Montreal 101, Quebec

Annual Report 1971

Notice of Annual Meeting of Shareholders

The Annual Meeting of the Shareholders of Canadian Pacific Investments Limited will be held on Monday, April 24th, 1972, at The Palliser Hotel, Calgary, Alberta, at 11:00 A.M. (local time), for the following purposes:

a. to receive the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1971;

b. to consider and, if deemed fit, to confirm By-law No. 11, enacted by the Board of Directors on March 21st, 1972, being a by-law amending General By-law No. 1, as set forth in the Information Circular;

c. to elect Directors;

d. to appoint the Auditors and to authorize the Board of Directors to fix their remuneration; and

e. to transact such other business as may properly come before the meeting.

The Board of Directors has by resolution fixed the time, before which proxies to be used at the Annual Meeting or any adjournments thereof must be deposited at Montreal, P.Q., with the Company or the Montreal Trust Company as Agent for the Company, at twenty-four hours, excluding Saturdays and holidays, preceding the Annual Meeting or any adjournments thereof.

By order of the Board,
J. C. Ames, Secretary.

Montreal, March 21st, 1972.

Contents

Board of Directors and Officers

Directors

*W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company, Montreal

*A. M. Campbell,
Chairman and Chief Executive Officer,
Sun Life Assurance Company of Canada, Montreal

*N. R. Crump, C.C.,
Chairman of the Company,
Canadian Pacific Limited, Montreal

R. Hendricks,
Chairman and Chief Executive Officer,
Cominco Ltd., Vancouver

S. E. Nixon,
Director,
Dominion Securities Corporation Limited, Montreal

H. M. Pickard,
Executive Vice-President,
Canadian Pacific Investments Limited, Calgary

*The Hon. Duff Roblin, P.C., C.C.,
President,
Canadian Pacific Investments Limited, Montreal

*Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Limited, Montreal

G. J. van den Berg,
Vice-President, Finance,
Canadian Pacific Limited, Montreal

*Member of Executive Committee

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Officers

Ian D. Sinclair,
Chairman and Chief Executive Officer,
Montreal

The Hon. Duff Roblin, P.C., C.C.,
President,
Montreal

H. M. Pickard,
Executive Vice-President,
Calgary

G. J. van den Berg,
Vice-President, Investments,
Montreal

F. A. Rutherford,
Comptroller,
Montreal

D. E. Sloan,
Treasurer,
Montreal

J. C. Ames,
Secretary,
Montreal

Mixed Trends in 1971

1971 was a good year for the Company's oil and gas and hotel operations but a poor year for its interests in metals and pulp and paper. Earnings from timberlands and real estate were not materially different from 1970.

Greater production of both oil and gas and an increase in the price of crude oil accounted for the higher earnings achieved by PanCanadian Petroleum. The success of Canadian Pacific Hotels in improving its earnings in 1971 was attributable in considerable measure to restructured management. Particularly noteworthy was the performance of Le Château Champlain in Montreal, a hotel of international standing.

Earnings of Cominco Ltd. and The Great Lakes Paper Company, Limited were sharply down in 1971. The appreciation in the exchange value of the Canadian dollar continued, as in the last half of 1970, to depress export earnings of both companies. In addition, markets for the metals which Cominco produces were relatively weak in 1971, although an upward trend in lead and zinc prices did develop during the first half of the year. However, after the U.S. economic measures of August were announced, the price of lead dropped and prices of other metals produced by Cominco, including mercury, cadmium, bismuth and silver, also declined. Copper prices fell throughout the year under pressure of surplus supplies. In the case of newsprint, prices improved but not enough to counter the adverse influences on Great Lakes' earnings of rising costs and the higher exchange value of the Canadian dollar. Dividend income from stocks held in other pulp and paper companies was lower because their earnings were similarly affected.

The net effect of these developments on the Company's consolidated net income was to reduce it from $39.3 million, or 69¢ per Common share in 1970, to $35.8 million, or 62¢ per share in 1971. Before extraordinary items, income amounted to $32.7 million, compared with $37.8 million in the prior year.

Dividends totalling 47.33¢ per share were paid on the Common stock, the same amount as in 1970.

Improved Outlook

Such specific elements of strength in 1971 as rising demand for oil and gas and high levels of home construction show signs of continuing into 1972. This should mean another good year for PanCanadian Petroleum, benefit Pacific Logging, and be favorable to the prospect of higher dividend income from MacMillan Bloedel. The uncertainties and instability created in 1971 by the monetary crisis and the U.S. surcharge have been dissipated to a large extent as a result of the international agreement reached in December. Government measures to stimulate the economies of Canada and the United States should lead to an expansion in trade. This would produce firmer markets and prices, including those for the products of Cominco and Great Lakes Paper. Both companies, however, will still have to contend with the relatively high exchange value of the Canadian dollar and with rising costs. Indications are encouraging for a resumption of growth in earnings of Marathon Realty.

Officers and Employees

The Directors gratefully acknowledge the contribution of officers and employees to the achievements of the Company.

For the Directors,

President

Chairman and Chief Executive Officer

Energy

The Company is represented in the energy field by its subsidiaries PanCanadian Petroleum, CanPac Minerals and Fording Coal, and through its interests in Panarctic Oils and its portfolio holding of stocks in TransCanada PipeLines and Rio Algom Mines.

PanCanadian Petroleum Limited

The amalgamated company, PanCanadian Petroleum Limited, was created effective December 31, 1971 as a result of completion of the merger of Central-Del Rio Oils Limited and its wholly-owned subsidiary, Canadian Pacific Oil and Gas Limited. CPI owns 87.15% of the outstanding shares of PanCanadian.

During the latter half of 1971 PanCanadian embarked on a program to expand its interests not only in Canada but internationally as well. The acquisition of the assets of Mana Resources Inc. of Dallas, Texas, gave PanCanadian important additions to its oil reserves in the Countess area of southeastern Alberta, where it has under way a major secondary recovery project. Other assets taken over from Mana included natural gas reserves in Canada and in five states in the United States.

PanCanadian has steadily broadened the scope of its exploration program to include the more remote areas of Canada and certain areas outside Canada. An agreement late in December between PanCanadian and Italian interests provides for joint exploration of approximately two million acres held under permits by the Italian group on mainland Italy and in the off-shore areas of both the Tyrrhenian and Adriatic Seas. The company through its U.K. subsidiary, Canadian Pacific Oil and Gas of Canada Limited, is also participating as a partner in a consortium headed by Ranger Oil (U.K.) which is undertaking exploration and drilling in the United Kingdom sector of the North Sea. These two projects mark the beginning of what is intended ultimately to be a significant program of foreign exploration.

In March 1972 PanCanadian sold $25 million of 8⅛% 20-year secured debentures. Proceeds of the issue were for retirement of bank loans and to meet the costs of the 1972 exploration and development program.

Crude oil production averaged 25,827 barrels per day in 1971, an increase of 6% over 1970. Average daily production of natural gas was 179.3 million cubic feet, an increase of 11%. Production of natural gas liquids averaged 2,703 barrels per day for the year, up 23%.

Changes during the year in estimated net proven and probable reserves are indicated in the following comparative year-end figures:

	1971	1970
Crude oil & natural gas liquids — million barrels	218.2	203.6
Natural gas — billion cubic feet	1,627	1,637
Sulphur — million long tons	4.0	5.0

Panarctic Oils Ltd.

PanCanadian Petroleum Limited and Cominco Ltd. each hold a 9% interest in Panarctic Oils Ltd.

In December Panarctic announced another major gas discovery, this one at Kristoffer Bay on Ellef Ringnes Island, some 50 miles north of the King Christian Island reservoir. The latest discovery of oil on Ellesmere Island announced in February 1972 adds new interest to the intensive exploration program planned by Panarctic for the eastern Arctic islands.

CanPac Minerals Limited

CanPac Minerals' exploration and development program for 1971 was concentrated on the exploration of major coal properties in Alberta. Results of evaluation of two coking coal properties and one thermal coal property indicate reserves sufficient to support long term contracts. Bulk samples of coal from one property are currently being distributed to potential customers in Canada and other countries.

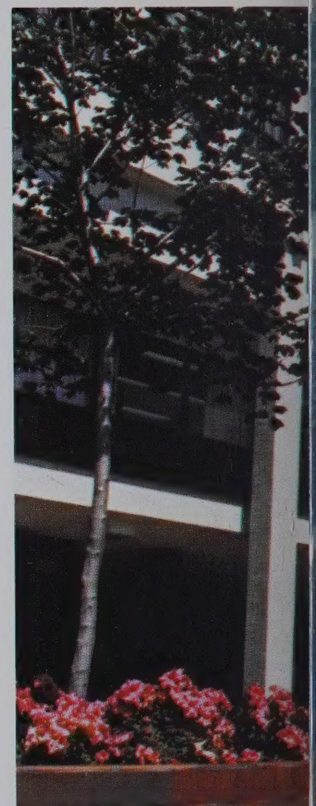
During the year additional Crown and freehold leases were acquired to consolidate holdings into viable mining blocks. CPI is negotiating to sell 40% of its shares in CanPac Minerals to Cominco.

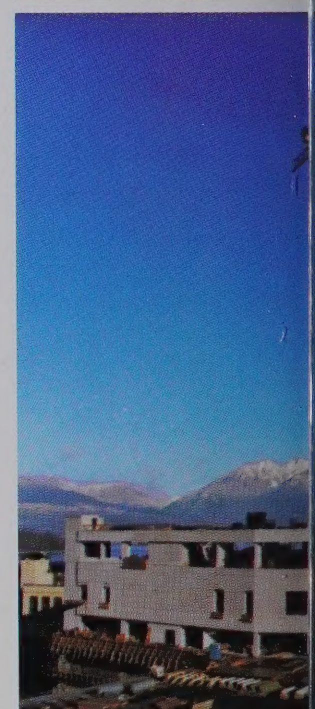
Fording Coal Limited

Development of the Company's Fording River coal property in southeastern British Columbia, under the management of Cominco Ltd., has advanced to the final stages of construction of plant facilities. A 33-mile branch line was built by CP Rail to connect the site to the rail line running to port facilities at Roberts Bank, B.C. A new community has been built at Elkford, south of the mine, for operating personnel of 450 and their families.

Pre-production mining has begun and inventory is being built up to meet the start of deliveries of coal to Japan, scheduled for April 1972. The contract with Japanese steel interests provides for the sale of 45 million tons of coking coal over a 15-year period.

Marathon Realty shopping centre at Galt, Ont., completed in 1971. Marathon now has 21 shopping centres across Canada.





Vancouver Granville Square office tower, part of Project 200 downtown development in which Marathon Realty has a major interest.

Palliser Square office building in Calgary, officially opened by Marathon in November, 1971.

Douglas fir "bullet" seedlings, part of a Pacific Logging reforestation program which planted more than 2.5 million seedlings in 1971.

Metals, Fertilizers and Chemicals

Through its subsidiary, Cominco Ltd., and its portfolio investments in Rio Algom Mines and Union Carbide Canada, CPI has an important stake in Canada's metal, fertilizer and chemical industries.

Cominco Ltd.

Long established as a leader in the production of lead and zinc, Cominco recently completed a $20 million modernization and expansion program at its Trail, B.C. electrolytic zinc plant. This now gives Cominco one of the most modern zinc plants in existence and makes it the largest potential zinc producer in the free world.

In August the company acquired a 55% interest in Aberfoyle Limited in Australia. This provides further geographic diversification and adds tin and tungsten to Cominco's products.

Development work continued on lead and zinc properties in Greenland and Spain. Projects were undertaken in the central Canadian Arctic and in Mexico, Australia and South Africa.

Rehabilitation of the company's potash mine at Vade, Saskatchewan, is proceeding on schedule. In the meanwhile, Cominco's markets are being protected through potash purchase and sales arrangements.

Financing and marketing studies have continued in connection with Valley Copper Mines Limited in B.C., in which Cominco owns a 70% interest. While considerable interest has been shown by a number of potential customers for copper concentrates, the uncertainties created by tax reform in Canada and the generally depressed state of the copper market combined to prevent completion of arrangements to bring the property into production.

In April 1971 Cominco sold $65 million of 8½% 20-year debentures. The proceeds of this issue were used to retire debt and to provide for capital expenditures and working capital.

Forest Products

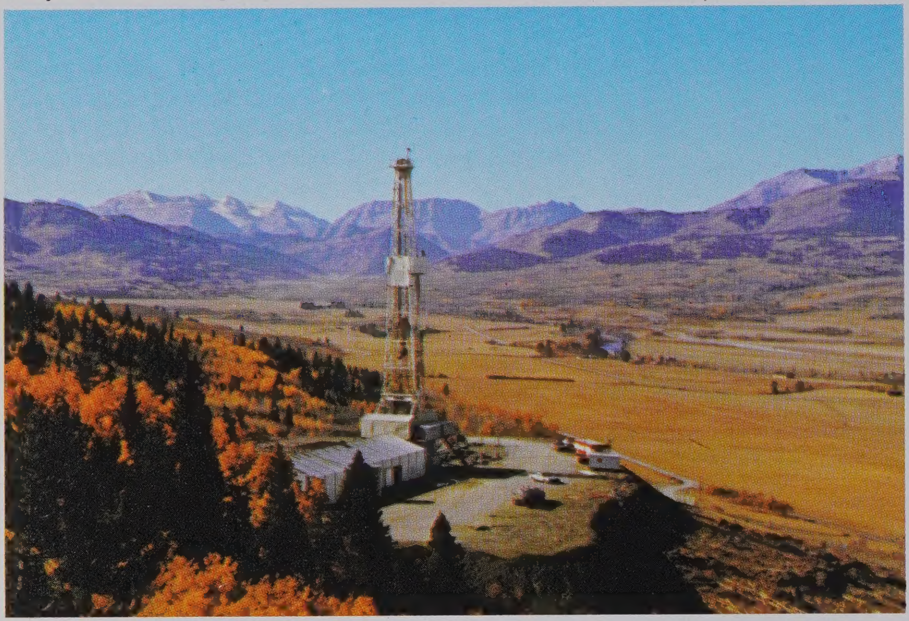
The Company is well represented in Canada's forest industries through its majority holding in The Great Lakes Paper Company, Limited, its ownership of Pacific Logging Company Limited, and its investment in MacMillan Bloedel Limited.

The Great Lakes Paper Company, Limited

Share purchases early in 1971 gave CPI a controlling interest in The Great Lakes Paper Company, Limited. Additional purchases throughout the year increased the holding of voting shares to 51.43%.

Canadian Pacific Investments Limited

PanCanadian Petroleum exploratory drilling rig at Pekisko, Alta. – one of 83 wells drilled in 1971 in which PanCanadian participated directly or had a working interest.



Pipe is hoisted from Pekisko hole to install new bit.

New Northstar Inn in Winnipeg which was added to CP Hotels chain in 1971.

Fording River coal property in British Columbia under development in 1971. Operation is managed by Cominco Ltd.

Early in 1972 Great Lakes will complete introduction of its new, highly centralized and efficient wood-handling system. This system will effect economies through mechanization, minimize pollution, and improve delivery of wood to the mill. During 1971 the company made steady progress towards its ultimate goal of complete mechanization of logging operations.

Pacific Logging Company Limited

Effective January 1, 1971 Pacific Logging increased its holdings in T. W. MacKenzie Logging Limited from 49% to 100%. The MacKenzie company is the prime logging contractor for Pacific Logging.

Construction was underway at year end on a new sawmill and planing mill at Ladysmith, B.C. in which Pacific Logging has an 80% interest. Scheduled to go into operation in the summer of 1972, the mill will have an initial annual production rate of 60 million board feet. It complements various other interests of Pacific Logging in wood processing on Vancouver Island.

MacMillan Bloedel Limited

During 1971 the investment in MacMillan Bloedel was increased by $2.4 million to $69.8 million, giving CPI an 11.35% interest in that company.

Prospects

The demand for lumber is expected to remain brisk in 1972. This should be favorable for the lumber operations of MacMillan Bloedel and should be of assistance to Pacific Logging. The outlook for newsprint is inseparably linked with the outlook for the U.S. economy. Current signs are encouraging, and over the longer term, markets are expected to expand. Rising operating costs are being countered to some extent by the increasing mechanization of production. Factors beyond the control of the individual company, such as the Canadian dollar exchange rate, taxes and other government charges, represent the most serious threats to increasing profitability over the next few years.

Hotels and Restaurants

The Canadian Pacific hotel chain will soon have 15 hotels in operation across Canada. The number of guest rooms provided will be approximately 6,000 compared with 4,200 in 1965. With the addition of the Northstar Inn, Canadian Pacific Hotels now operates a first-class hotel in Winnipeg. The Red Oak Inn, a 100-room motor hotel presently under construction in Brandon, Manitoba, is scheduled for opening in April 1972.

In late October, CP Hotels entered into an agreement with Halifax Developments Limited to incorporate a company to construct and operate a hotel in the new Scotia Square development in Halifax. The 284-room luxury hotel, scheduled to open in 1973, is to be built on a plaza overlooking Halifax harbour and the Citadel fortress. In addition to guest rooms the hotel will provide conference and convention facilities.

The Royal York Hotel in Toronto, the largest unit operated by CP Hotels and a major convention centre, is currently undergoing a multi-million-dollar renovation which will modernize its public rooms, restaurants, convention facilities and guest rooms. The greater part of the work is scheduled for completion in 1972.

Extensive renovation to guest accommodation was undertaken at Le Château Montebello during the year. Further work in 1972 will complete the program to establish this hotel as one of the major conference-resort centres in eastern Canada. A program of refurbishing rooms is under way at the Banff Springs Hotel, operated on a year-round basis by CP Hotels for Canadian Pacific Limited.

In March 1972 a prospectus was filed with various securities commissions in Canada for an issue of mortgage bonds by Canadian Pacific Hotels Limited to raise $20 million.

Real Estate

A substantial number of projects launched by Marathon Realty in earlier years was completed and became operational in 1970 and 1971, with the result that earnings were burdened with the normal start-up losses associated with major projects. This is a situation that growing real estate companies expect to face, but its recent impact has been harsher than expected because of the peaking of interest rates, the economic slowdown of 1970 and the faltering recovery of early 1971. Although difficulties of this nature may persist, Marathon expects to be able to improve its net income in 1972.

Marathon's efforts in 1971 were concentrated on a major marketing program to lease the uncommitted space in completed projects. The following table indicates the progress that was made:

	Percent Leased December 31	
	1971	1970
Commercial and office (excl. garages)	78%	66%
Shopping centres —		
Completed prior to 1971	96	93
Additions 1971	84	—
Residential	96	84

Commercial and Office Properties

Nearly 23% of Marathon's operating profit in 1971 was derived from commercial and office buildings. One of the most successful of the company's large office buildings is Place du Canada in Montreal. This has a gross area of over half a million square feet which has been fully leased for some time.

The largest office and commercial development so far undertaken is Palliser Square in downtown Calgary. Much of Palliser Square's 600,000 square feet of commercial and office space was ready for marketing just when the market was declining. After a particularly vigorous period of expansion, Calgary has been experiencing unusually high rates of office vacancies. The market will ultimately require all the space that has been built, but this will take time and it is not anticipated that Palliser Square will contribute to earnings in the near future.

In Vancouver the Granville Square phase of Project 200 is progressing well. Construction of the office tower and an adjoining low-rise financial and retail mall is expected to be completed for October 1972. Approximately 75% of the space has been committed for lease.

Shopping Centres

Shopping centres contribute about 16% of Marathon's operating profit. Construction of two shopping centres was completed during the year, one at Kelowna, B.C. and the other at Galt, Ontario. At year end a start had been made on construction of stage II of the Kelowna centre, to increase that development by more than one-third. Marathon now has a total of 21 shopping centres across Canada. With recovery in the economy it is anticipated that greater earnings will result from participation rentals, particularly in those centres which have been in operation for some time and are thus well established in their retail areas.

Marathon Aviation Terminals

Marathon Aviation Terminals, which is 50% owned by Marathon Realty, continued to expand in 1971. At Toronto International Airport it completed construction of a flight kitchen for CP Hotels, and additional air cargo space and office space for its own use. This company has plans to extend its operations in 1972 to airports other than Montreal and Toronto.

Metro Centre

Metro Centre in Toronto is a major development of great complexity. It has taken considerable time to obtain approvals from the various levels of government. During 1971, however, certain essential approvals and agreements were successfully negotiated with the City of Toronto. Approvals from the Ontario Municipal Board are now required before construction can commence. No agreement has yet been obtained on the integration of the public transportation services.

Montreal Redevelopment Project

Construction of phase one of the projected redevelopment of the Windsor Station area in downtown Montreal is scheduled to commence in mid-1972. The first phase consists of an office tower, about half of which is to be occupied by the headquarter facilities of Canadian Pacific, and the remainder rented to other tenants.

Development Plans

Marathon is now proceeding to develop several key land holdings, including its 35-acre site known as Arbutus in Vancouver. Several other development plans are expected to materialize during the year.

In partnership with other developers, Marathon has fostered the development of a convention centre immediately adjacent to Palliser Square. By year end the City of Calgary, with financial assistance from the provincial and federal governments, had agreed to undertake the land assembly necessary for the centre. Construction is expected to commence in 1972.

Stock Holdings

At December 31, 1971 there were 23,766 registered shareholders of the Preferred shares, Series A, of whom 98.6% were Canadian registrants. At year end 50,119,859 Common shares were outstanding. Of these, 50,000,000 were owned by Canadian Pacific Limited.

Directorate

The Directors desire to record their sincere appreciation of the notable contribution made by Mr. N. R. Crump to the affairs of the Company since its incorporation in 1962. Mr. Crump's tenure of office as Chairman of the Company and Chief Executive Officer was concluded in 1971 and he has indicated his intention not to stand for re-election as a Director of the Company at the 1972 Annual Meeting of Shareholders.

On April 26, 1971, Mr. Ian D. Sinclair was elected Chairman of the Company and Chief Executive Officer.

Statement of Consolidated Income for the year ended December 31

	1971	1970
		(in thousands)
Oil, Gas and Other Minerals		
Gross operating revenue	**$40,005**	$35,550
Expenses including income taxes	**27,145**	24,647
Net income	**12,860**	10,903
Timberlands and Related Facilities		
Sales and operating revenue	**21,601**	27,623
Expenses including income taxes	**19,890**	25,940
Net income	**1,711**	1,683
Real Estate and Related Operations		
Gross rentals and other income	**23,266**	18,681
Expenses including income taxes	**21,810**	17,086
Net income	**1,456**	1,595
Hotels and Restaurants		
Gross operating revenue	**50,736**	46,435
Expenses including income taxes	**48,334**	45,558
Net income	**2,402**	877
Financing		
Gross operating revenue	**15,617**	18,185
Expenses including income taxes	**15,512**	18,059
Net income	**105**	126
Investment Income		
Dividends		
Cominco Ltd.	**6,216**	12,431
Other subsidiary companies not consolidated	**1,279**	95
Other investment income	**5,967**	10,613
	13,462	23,139
Expenses including income taxes	**733**	1,239
Net income	**12,729**	21,900
Net Income from Operations		
(after income taxes of – 1971 – $11,404,000; 1970 – $9,961,000) (Note 8)	**31,263**	37,084
Equity in income of subsidiaries not consolidated in excess of dividends included above (Note 2)	**1,472**	708
Income before Extraordinary Items	**32,735**	37,792
Extraordinary items (Note 7)	**3,043**	1,510
Net Income	**$35,778**	$39,302
Earnings per common share (Note 12)		
Income before extraordinary items	**56¢**	66¢
Net income	**62¢**	69¢

See Notes to Financial Statements

Statement of Consolidated Retained Income for the year ended December 31

	1971	1970
	(in thousands)	
Balance, January 1	**$156,246**	$145,363
Add:		
Net income for the year	**35,778**	39,302
	192,024	184,665
Deduct:		
Dividends		
Preferred shares	**4,705**	4,713
Common shares	**23,718**	23,706
	28,423	28,419
Balance, December 31	**$163,601**	$156,246

Consolidated Investment Portfolio as at December 31, 1971

	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
			(in thousands)	
Common Stocks				
Husky Oil Ltd.	487,000	5.04	$ 5,576	$ 7,792
The Investors Group	300,000	4.38	3,650	2,325
MacMillan Bloedel Limited	2,370,100	11.35	69,789	61,030
Northern and Central Gas Corporation Limited	358,200	2.43	5,015	5,149
Rio Algom Mines Limited	1,210,869	9.88	28,280	18,466
TransCanada PipeLines Limited	1,383,840	16.64	51,448	49,126
Union Carbide Canada Limited	825,300	8.25	18,375	11,038
Other			1,627	2,483
			183,760	157,409
Preferred Stocks			32,700	29,470
Bonds, Debentures and Notes			7,900	7,194
			$224,360	$194,073

See Notes to Financial Statements

Statement of Consolidated Source and Application of Funds for the year ended December 31

		1971	1970
		(in thousands)	
Source of Funds			
Net income		**$ 35,778**	$ 39,302
Deduct: Equity in net income of subsidiaries not consolidated in excess of dividends received		**3,162**	708
		32,616	38,594
Depreciation, depletion and amortization		**17,637**	16,371
Deferred income taxes		**7,185**	6,513
Minority interest in income of a subsidiary		**1,453**	1,324
Funds from operations		**58,891**	62,802
Capital stock issued			
Common			
Issued	$330		
Less: Conversion of preferred shares	244	**86**	5
Increase in long term debt		**33,687**	68,261
Proceeds from disposal of properties		**7,275**	3,602
Issue of shares by PanCanadian Petroleum Limited to acquire property		**9,158**	—
Decrease in investment portfolio		**47,349***	(7,088)
		$156,446	$127,582
Application of Funds			
Investment in subsidiary companies not consolidated		**$ 23,690***	$ 8,478
Additions to other investments		**3,689**	5,138
Additions to properties		**63,098**	67,419
Dividends declared		**28,423**	28,419
Sundries (net)		**4,928**	2,646
Increase in working capital		**32,618**	15,482
		$156,446	$127,582

*Includes transfer of investment in The Great Lakes Paper Company, Limited, as referred to in Note 2.

See Notes to Financial Statements

Consolidated Balance Sheet, December 31

Assets

	1971	1970 (in thousands)
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 56,076**	$ 46,842
Deposits with Canadian Pacific Limited	**5,868**	3,391
Demand loan – Canadian Pacific Limited	**25,000**	25,000
Demand loans and accrued interest – other affiliated companies	**18,203**	18,457
Dividends and other accrued interest receivable	**1,393**	1,940
Accounts receivable	**14,720**	14,762
Inventories, at the lower of cost and market	**4,397**	3,953
Prepaid expenses	**1,288**	1,248
	126,945	115,593
Investment Portfolio, at cost (market value 1971 – $194,073,000; 1970 – $236,483,000)	**224,360**	271,709
Investments in Subsidiary Companies not Consolidated (Note 2)		
Cominco Ltd.	**171,157**	188,545
Other	**60,453**	16,213
	231,610	204,758
Other Investments, at cost	**31,224**	27,535
Properties, at cost		
Oil, gas and other minerals	**260,980**	221,309
Timberlands and related facilities	**65,838**	62,213
Real estate and related operations	**155,585**	142,112
Hotels	**70,121**	68,401
	552,524	494,035
Less: Accumulated depreciation, depletion and amortization	**102,544**	85,126
	449,980	408,909
Other Assets	**5,446**	5,145
Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition (Note 1)	**1,132**	6,868
	$1,070,697	$1,040,517

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1971 and the statements of consolidated income, consolidated retained income and consolidated source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd. and The Great Lakes Paper Company, Limited, we have relied upon the reports of the auditors who examined their financial statements.

See Notes to Financial Statements

	1971	1970
		(in thousands)
Liabilities		
Current Liabilities		
Accounts payable and accrued charges		
Canadian Pacific Limited	$ **4,201**	$ 4,735
Other	**19,582**	21,293
Notes and accrued interest payable	**130,549**	144,747
Income and other taxes payable	**3,824**	1,871
Dividends payable	**12,194**	12,186
Long term debt maturing within one year	**5,352**	12,136
	175,702	196,968
Deferred Liabilities	**6,685**	7,451
Long Term Debt (Note 4)	**150,713**	117,026
Minority Shareholders' Interest in Subsidiary Company	**14,395**	10,496
Deferred Income Taxes	**56,037**	48,852
Shareholders' Equity		
Capital Stock – (Note 3)		
Preferred shares		
Authorized – 12,500,000 shares of a par value of $20 each		
Issued – 4,946,663 (1970 – 4,958,873) 4¾ % Cumulative Redeemable Convertible Voting, Series A	**98,933**	99,177
Common shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 50,119,859 (1970 – 50,088,304) shares	**322,831**	322,501
Paid-in surplus	**81,800**	81,800
Retained income (Note 3)	**163,601**	156,246
	667,165	659,724
	$1,070,697	$1,040,517

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, subject to possible adjustments which may result in the future from resolution of the matters referred to in the second paragraph of Note 2.

Price Waterhouse & Co.,
Chartered Accountants
Montreal, Quebec, March 9, 1972.

Approved on behalf of the Board
Ian D. Sinclair, Director
Duff Roblin, Director

Notes to Financial Statements

1 – Basis of Consolidation

The consolidated financial statements of Canadian Pacific Investments Limited (CPI) include the accounts of all wholly-owned subsidiaries (Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited, Canadian Pacific Securities Limited, CanPac Minerals Limited) and PanCanadian Petroleum Limited (PanCanadian), formerly Central-Del Rio Oils Limited, in which CPI has an interest of 87.15%. The minority interest in income of PanCanadian amounts to $1,453,000 for the year 1971 and $1,324,000 for the year 1970.

On December 2, 1971, PanCanadian acquired the net assets, comprising oil and gas properties, of Mana Resources, Inc., a Texas corporation, issuing in consideration 732,601 shares, (2.34% of total shares outstanding after the issue) at a value of $12.50 per share. This transaction resulted in an increase in the book value of CPI's interest in PanCanadian of $5,736,000 which was applied in reduction of Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition, which applied solely to PanCanadian.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

2 – Investments in Subsidiary Companies not Consolidated

The financial statements of Cominco Ltd., in which CPI has an interest of 53.18%, and other unconsolidated subsidiaries are not consolidated because of the existence of substantial minority interests. Other unconsolidated subsidiaries include The Great Lakes Paper Company, Limited, 51.43% owned (cost $43,656,000) which was transferred from Investment Portfolio in January 1971 upon acquisition of control, and Fording Coal Limited, 60% owned (cost $9,600,000). The equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

The notes to the 1971 financial statements of Cominco Ltd. refer to the following: (a) uncertainties in the interpretation of income tax regulations which, if decided in favour of the Department of National Revenue, could result in additional taxes of $2,800,000 for the years 1969 to 1971; (b) disputed income tax assessments involving possible additional taxes aggregating $1,100,000 for the four years ended December 31, 1971; (c) the recoverability of costs of $5,932,000 incurred in the rehabilitation of the Saskatchewan potash mine after flooding in 1970, treated as an amount recoverable from contractors in Cominco's 1971 balance sheet. Although Cominco, supported by its legal counsel, considers that these matters will be resolved in its favour, their outcome cannot be determined at this time.

An analysis of investments in unconsolidated subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other
	(in thousands)	
Cost of acquisition	$ 31,216	$ 56,190
Adjustment of cost of shares acquired from Canadian Pacific Limited to equity in underlying assets at December 31, 1963	81,800	—
Equity in net income since acquisition, less dividends received	55,858	499
Equity in other increases in retained income	2,283	—
	171,157	56,689
Advances	—	3,764
	$171,157	$ 60,453

3 – Capital Stock

Each preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's option at $20 per share after November 1, 1972.

At December 31, 1971, 4,986,815 warrants for the purchase of common shares were outstanding. Each warrant entitles the holder to purchase one common share at $14 per share on or before November 1, 1974.

In 1971, a total of 31,555 common shares were issued, consisting of 7,135 shares on exercise of warrants and 24,420 shares on conversion of preferred shares.

Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. The amount of retained income available for such distributions was approximately $87,000,000 at December 31, 1971.

Notes to Financial Statements

4 – Long Term Debt

	1971	1970
	(in thousands)	
Canadian Pacific Securities Limited		
7% bank term loan repayable 1979	**$ 25,000**	$ —
7½ % bank term loan	**—**	14,000
9½ % Sinking Fund Debentures due 1990	**25,000**	25,000
9⅜ % Sinking Fund Debentures due 1990	**40,000**	40,000
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1972-1975	**5,905**	2,740
7⅛ % bank term loan due 1976	**7,030**	—
Foundation-Scottish Properties Limited		
6½ % First Mortgage Bonds maturing 1995, sinking fund payments 1972-1994	**10,606**	10,806
Pacific Logging Company Limited		
Term loans bearing interest at prime rate plus ½ % repayable 1972-1974	**6,900**	8,000
PanCanadian Petroleum Limited		
Bank loans bearing interest at prime rate plus ¼ % – ½ % repayable 1972-1979	**35,624**	17,810
Bank loans bearing interest at varying rates	**—**	10,806
	156,065	129,162
Less: Long term debt maturing within one year	**5,352**	12,136
	$150,713	$117,026

Annual maturities and sinking fund requirements for each of the five years following 1971 are: 1972, $5,352,000; 1973, $18,784,000; 1974, $5,578,000; 1975, $13,292,000; 1976, $12,153,000.

5 – Interest Expense

Interest on long term debt for 1971 was $18,131,000 (1970 – $8,245,000) and on short term notes $8,325,000 (1970 – $13,616,000).

6 – Depreciation, Depletion and Amortization

Amounts charged for depreciation, depletion and amortization in the statement of consolidated income were $17,637,000 in 1971 (1970 – $16,371,000).

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

The amount of depletion charged expenses for the year 1971 was $8,987,000 (1970 – $8,050,000) and the accumulated depletion at December 31, 1971 was $54,327,000 (1970 – $45,636,000).

7 – Extraordinary Items

Extraordinary items comprise, in 1971, gain on disposal of investments, $996,000; gain on conversion of bank loan from U.S. to Canadian currency, $357,000; equity in proceeds from grant of river and water storage rights of Cominco Ltd., $1,460,000; and equity in reduction in income taxes of a subsidiary of Cominco Ltd. resulting from losses and tax credits of prior years, $230,000; and, in 1970, gain on disposal of investments, $670,000; and net gain on sale of a lumber mill by a subsidiary, $840,000.

Notes to Financial Statements

8 – Income Taxes

The provision for income taxes reflected in net income from operations, in the total amount of $11,404,000 (1970 – $9,961,000) includes $7,185,000 (1970 – $6,513,000) in respect of deferred income taxes.

The companies have followed the practice of charging against income both the income taxes currently payable and tax deferments resulting from timing differences between write-offs for book and for tax purposes. In computing deferred income taxes in respect of oil, gas and other minerals an estimated tax rate, which is less than the current effective rate, has been used. While The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has recommended the use of current effective rates in such a situation, CPI believes its procedures result in adequate provision for deferred income taxes. CPI's policy is more conservative than the general practice in the oil and gas industry in Canada, where the majority of companies do not provide any amounts for income tax deferred as a result of claiming drilling, exploration and lease acquisition costs in excess of amounts written off in the accounts (a practice which is accepted by accounting authorities outside Canada).

The additional amount which would have been provided if current effective tax rates had been used is $2,300,000 (1970 – $1,800,000). The total additional amount which would have been provided to December 31, 1971 is $16,000,000.

9 – Commitments and Contingencies

Commitments for capital expenditures at December 31, 1971 were $14,000,000 (1970 – $16,000,000).

Fording Coal Limited, a 60% owned subsidiary, has arranged lines of credit of Can. $60,000,000 and U.S. $10,000,000 of which CPI has guaranteed 60% and Cominco Ltd. 40%. At December 31, 1971, $57,892,000 had been borrowed.

Loans guaranteed by a subsidiary amounted to $10,860,000.

10 – Foreign Exchange

Current assets and current liabilities in U.S. currency have been translated into Canadian dollars at current rates; other assets and liabilities (which are not significant in amount) have been translated at historical rates. Gains or losses on exchange are included in or charged to income.

11 – Directors' and Officers' Remuneration

Aggregate remuneration paid to persons who served as directors and officers of CPI at any time during the year was as follows:

	1971		1970	
	(9 directors, 5 of whom were officers)		(9 directors, 5 of whom were officers)	
Paying Company	As Directors	As Officers	As Directors	As Officers
CPI	$18,000	$131,000	$19,000	$144,000
Cominco Ltd.	24,000	139,000	22,000	138,000
Other subsidiaries, principally PanCanadian	18,000	8,000	13,000	7,000

12 – Earnings per Share

Assuming full dilution through conversion of preferred shares and exercise of warrants, earnings per share for 1971 would be 54¢ before extraordinary items and 59¢ in total. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of warrants has been assumed.

13 – Pension Costs

The unfunded past service liability as determined by an actuarial survey at December 31, 1970 was about $2,200,000. This amount is being funded by equal annual payments to 1990.

14 – Subsequent Financing

On March 1, 1972, PanCanadian Petroleum Limited sold $25,000,000 8⅛% Secured Debentures to mature March 1, 1992. Canadian Pacific Hotels Limited is arranging for the sale of $20,000,000 First Mortgage Sinking Fund Bonds to mature in 1992.

Five-year Summary

	1967	1968	1969	1970	**1971**
		Figures in thousands, except amounts per share			
Net income from operations					
Oil, gas and other minerals	$ 10,609	$ 11,850	$ 11,231	$ 10,903	**$ 12,860**
Timberlands and related facilities	542	2,435	3,110	1,683	**1,711**
Real estate and related operations	1,226	1,302	2,071	1,595	**1,456**
Hotels and restaurants	870	(443)	864	877	**2,402**
Financing	204	150	128	126	**105**
Investment income	19,793	22,948	22,125	21,900	**12,729**
	33,244	38,242	39,529	37,084	**31,263**
Equity in income of subsidiaries not consolidated	6,831	3,816	1,425	708	**1,472**
Income before extraordinary items	40,075	42,058	40,954	37,792	**32,735**
Extraordinary items	4,207	1,330	3,158	1,510	**3,043**
Net Income	$ 44,282	$ 43,388	$ 44,112	$ 39,302	**$ 35,778**
Dividends — Preferred shares	$ —	$ 4,749	$ 4,724	$ 4,713	**$ 4,705**
— Common shares	20,065	21,505	23,032	23,706	**23,718**
Number of Shares Outstanding					
Common	50,000	50,016	50,078	50,088	**50,120**
Preferred	5,000	4,993	4,964	4,959	**4,947**
Per Common Share					
Income before extraordinary items	78¢	74¢	72¢	66¢	**56¢**
Net income	86	77	78	69	**62**
Dividends	40	43	46	47.33	**47.33**
Investments at year end					
Portfolio	$239,026	$276,031	$264,621	$271,709	**$224,360**
Subsidiaries not consolidated	177,223	189,670	195,572	204,758	**231,610**
Properties	194,665	242,594	364,714	408,909	**449,980**

Canadian Pacific Investments Limited Annual Report 1971

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